Debt Ceiling Talks: from Disagreement to Impasse to Crisis

In his letter to members of the House, Boehner said, "During these discussions … it became evident that the White House is simply not serious about ending the spending binge that is destroying jobs and endangering our children's future… In the end, we couldn't connect. Not because of different personalities, but because of different visions for our country."

He went on to say: "The president is emphatic that taxes have to be raised…. The president is adamant that we cannot make fundamental changes to our entitlement programs…. For these reasons, I have decided to end discussions with the White House."

Upon learning that Boehner had ended negotiations, the President was visibly angry, saying, "We have now run out of time … one of the questions that the Republican Party is going to have to ask itself is: Can they say yes to anything?"

Negotiations had appeared to be making progress, with the White House agreeing to Republican demands for substantial changes in the entitlement programs of Social Security and Medicare, while eliciting a "handshake" agreement with Boehner for some $800 billion in revenue increases. But when the Democrats learned about the proposed depth of the cuts in those programs, and when the Republicans learned that Boehner had compromised on tax increases, the roof fell in.

Several alternatives were on the table including a proposal by the "Gang of Six" Senators, both Democrats and Republicans, and a "fall back" plan offered by Senate Majority Leader Harry Reid and Senator Mitch McConnell. But Boehner kept running into resistance from his party caucus about revenue increases of any kind, while the White House kept shifting gears. Said Boehner, "Dealing with the White House is like dealing with a bowl of Jell-O. There was an agreement with the White House for $800 billion in revenue [increases]. It was the president who walked away from this agreement."

The President then issued a call for Democrat and Republican leaders in the House and Senate to meet at the White House on Saturday morning to see if any of the pieces can be put back together. At this writing, details of offers and counteroffers were not available. But two imminent events are hanging over those renewed attempts: potential downgrades in the credit worthiness of U.S. Treasury debt securities, and Monday morning on Wall Street.

Standard and Poor's threatened that even if Saturday's negotiations resulted in a bill that could pass both houses and be signed into law before August 2, it would most likely lower the rating on the country's debt from the coveted AAA to AA+ "with a negative outlook."

And then there's Wall Street, nervously watching closely over the weekend at those negotiations.

Obama said:

> I remain confident that we will get an extension of the debt limit and we will not default.... [But] I think it's very important that the leadership understands that Wall Street will be opening on Monday and we'd better have some answers during the course of the next several days.

The so-called "backup plan" offered by Reid and McConnell, and then withdrawn as settlement appeared to be nearing, has been brought to the forefront once again. In essence, it's a political ploy that would allow the President to increase the debt limit unilaterally, subject to approval by Congress. This would be considered a political risk for the President in an election year, and political fodder for the Republicans at the same time. The President could be blamed for raising the debt limit, with the Republicans in Congress claiming that he was continuing his big spending ways, which might count for something in the elections. Critics point out that such a plan is unconstitutional and would give unprecedented (and continuing) power to the presidency, which President Obama said he "would be glad to accept."

The consequences of failure to agree over the weekend in time to avoid the August 2nd date when the government could no longer continue to borrow to pay its bills are uncertain. Under the Clinton administration there were two back-to-back shutdowns lasting just 21 days, which ended when the President sufficiently frightened freshmen congressmen with such dire consequences that they raised the ceiling and government continued to spend. And in Minnesota, a 19-day shutdown just ended after an unsatisfactory compromise was reached that pleased no one, and allowed the government to reopen and continue to spend.

Other consequences of failure to agree may include the White House claiming it has the authority under the 14th Amendment to continue paying all of the bills, regardless of whether or not Congress raises the debt ceiling, through issuance of special indebtedness certificates that would be treated as sovereign debt. And others have suggested that the President could just issue an executive order to the Treasury continue to pay the government's bills.

There is a difference between hitting the debt ceiling, and defaulting, although precious few in the media have made that clear. With revenues of $200 billion expected in August, and $300 billion in bills to be paid, there is plenty of money to pay all the interest due on the government's debts, as well as Social Security and Medicare payments. The only way a default on that debt or a delay in making those payments could occur would be if Secretary of the Treasury Timothy Geithner, under orders from the White House, deliberately delayed or withheld them.

The whole issue of raising the debt ceiling will be resolved shortly as either the Republicans cave in, or the howls from those dependent upon their government handouts rises to the level of permanent hearing loss when their checks are late. It is helpful to remember that all of this noise represents much discussion about little. The national debt is approaching $15 trillion, and the annual deficits are $1.5 trillion. That means that the national debt, if nothing is done, will likely exceed $30 trillion in 10 years. Analysts know that to talk about "cutting spending" by $2 trillion or $3 trillion or even $5 trillion over that same time period is nothing more than political theater and a monumental waste of time.